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Insurance and Pensions

The Principles of Insurance. Volume I. *Life.* By W. F. GEPHART.
(New York: The Macmillan Company. 1917. Pp. xi, 385.
\$1.50.)

It has not been generally appreciated that the life insurance business is one of the most important kinds of business in the country, being comparable in its magnitude to the banking or the railroad business. It is also probably the least understood of any of the more important kinds of business. Consequently, a book which gives an adequate survey of this business, giving both the practical standpoint and explaining the scientific foundations upon which it rests, is of much value. The present book does this and in a satisfactory way. It is written by one who knows insurance rather from the scholar's standpoint than that of the practical insurance man, and yet, in general, the practical side of the business is well treated.

There are two principal reasons why, notwithstanding the importance of life insurance, there is less general knowledge about it than about other kinds of business of at all comparable magnitude. One of these is the practical one of the way in which the average man comes in contact with the business, in that he obtains from the company a promise to pay a definite sum at his death (or, if an endowment, at some earlier date) and pays to the company a periodic premium for this. Such a relation is very different from, for instance, his relation with his bank, where he is constantly drawing checks, making deposits, having to keep watch of his balance, perhaps seeking accommodation in loans or discounts, or other favors. The other principal reason is that there are scientific principles underlying insurance which are understood by comparatively few of the general public; and without some conception of these principles it is not possible to really understand the business. A third reason might perhaps be added; namely, that the business is unlike any other kinds of business in that instead of selling a commodity the insurance company sells a promise to pay at some future time, the time itself depending upon the contingency of death, so that the obligations of the company are not present but rather the future obligations of having the proper funds in hand when the promises to pay mature.

It is important that a more general knowledge of the fundamentals of life insurance should be disseminated, since the lack of real

information frequently means misinformation; even if for no other reason this would be important in the question of legislation, for there are no kinds of business except banking and transportation which are so regulated and supervised by the state as insurance. This regulation can either serve the public or do great harm to the public according as it is wise or unwise; and much of the unwise regulation that has thus far been enacted has resulted from lack of knowledge.

Mr. Gephart has well met the problem. His book is simple and readable and yet broad, and adequate to give not only an understanding of the fundamental principles but a great deal of the practical business side. Its wide scope is shown by an enumeration of some of the subjects it takes up: the history of life insurance, mortality tables, the scientific foundations of the business, the kinds of life insurance contracts, the selection of risks and some of the special classes as regards mortality, what the reserve is and how it is entirely different from a bank reserve, surplus and dividends and the problems connected therewith, investments of life companies, insurance for wage-earners, the relation of the state to insurance.

The book avoids a difficulty which sometimes occurs when those outside of the business attempt to write about it: namely, the difficulty of supporting theories which, for practical reasons, are unworkable. In life insurance one of the most common of these is the theory of saving to the company the expense caused by agents' commissions, which has been tried many times and without success. The nearest approach to success has been achieved by the Equitable Insurance Company of London, one of the oldest companies in existence and one which has had an exceedingly honorable history. Yet it issues less insurance in a year than one of the large American companies issues in a week, and in its premium rates and returns to policyholders is about on a par with other British companies which do employ agents.

A very valuable feature of the book is that it brings out forcefully the true nature of life insurance; that it is not an investment or a proposition into which the insured goes for profit, but that it is a coöperative scheme in which a large part of the work of the company is to distribute among many the cost which is in any case entailed on the public by the mortality.

The arrangement is a little unfortunate. The book begins with a history of life insurance, then takes the theory of life insurance,

the mortality tables, selection of lives, etc. Inasmuch as the average person knows very little about what the business of life insurance is and what it does for the policyholder, the reader should first be told what the business he is reading about has for sale, rather than what are its scientific foundations and what has been the history of its products. Afterwards these latter subjects will be of greater interest and will have more meaning.

There are some errors in the book that should not have been made. On page 146 it is stated that the renewal commissions are now commonly limited to the first seven years of the policy; whereas they usually either run for a longer term than this or are commuted into three years. On page 249 it is said that "*many* states have considered it necessary to lay down the limit of expense for new business"; whereas there are two only, New York and Wisconsin. Such errors are mostly in detail and do not greatly affect the value of the work. There is, however, one serious omission. While most of the well-known mortality tables are fully treated, a table which is more important than almost any other, and which was constructed from the most extensive investigation ever made for any general mortality table founded on insured lives, the British Offices table, is entirely passed over. Furthermore, on page 63 it is stated that the Combined Experience table is the one now generally in use in England, whereas it is the British Offices tables which are in general use.

WENDELL M. STRONG.

The Principles of Insurance. Volume II. Fire. By W. F. GEPHART.
(New York: The Macmillan Company. 1917. Pp. xi, 332.
\$1.50.)

Fire underwriters have often complained that a business with which only a few others are comparable in point of size, universality, and importance, should have received from the public so little intelligent study. Their thirty million policies represent an average of about one and one-half for each family in this country, and aggregate a total of more than sixty billion dollars of fire insurance in force; and yet there are probably ten men who can intelligently discuss banking or railroading to every one who is really conversant with the problems of underwriting. For this reason, the volume under consideration is of unusual importance.

Professor Gephart's work takes the form of a student's textbook. It is written from the viewpoint of an economist rather than